

CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE

AUDIT OFFICE



CLOVERDALE CITRUS FAIR ASSOCIATION  
CLOVERDALE CITRUS FAIR  
CLOVERDALE, CALIFORNIA

INDEPENDENT AUDITOR'S REPORT  
AND FINANCIAL STATEMENTS

AUDIT REPORT #09-055  
FOR THE YEARS ENDED  
DECEMBER 31, 2008 AND 2007

CLOVERDALE CITRUS FAIR ASSOCIATION  
CLOVER DALE CITRUS FAIR  
CLOVERDALE, CALIFORNIA

INDEPENDENT AUDITOR'S REPORT  
AND FINANCIAL STATEMENTS

FOR THE YEARS ENDED  
DECEMBER 31, 2008 AND 2007

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AUDIT STAFF

Ron Shackelford, CPA  
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Audit Chief  
Assistant Audit Chief  
Auditor

AUDIT REPORT NUMBER

#09-055

CLOVERDALE CITRUS FAIR ASSOCIATION  
CLOVER DALE CITRUS FAIR  
CLOVERDALE, CALIFORNIA

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CALIFORNIA DEPARTMENT OF  
FOOD & AGRICULTURE

A. G. Kawamura, Secretary

Betty Kunakov, President  
Board of Directors  
Cloverdale Citrus Fair  
1 Citrus Fair Drive  
Cloverdale, California 95425

### INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying statements of financial condition of the Cloverdale Citrus Fair Association, Cloverdale Citrus Fair, Cloverdale, California, as of December 31, 2008 and 2007, and the related statements of operations and changes in accountability, and cash flows-regulatory basis for the years then ended. These financial statements are the responsibility of the Cloverdale Citrus Fair Association's management. Our responsibility is to express an opinion on these financial statements based on our audits.

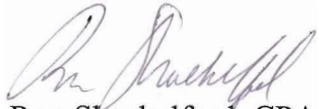
We have conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Cloverdale Citrus Fair Association, Cloverdale Citrus Fair, as of December 31, 2008 and 2007, and the results of its operations and changes in accountability, and cash flows-regulatory basis for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The Cloverdale Citrus Fair Association, Cloverdale Citrus Fair has not presented the Management's Discussion and Analysis, which the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.



Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Management Report #09-055, on the Cloverdale Citrus Fair Association's compliance with State laws and regulations and system of internal accounting control, is issued solely for the purpose of additional analysis and should be addressed by the Cloverdale Citrus Fair Association as appropriate. This additional report, however, is not a required part of the basic financial statements.

A handwritten signature in dark ink, appearing to read 'Ron Shackelford', is positioned above the printed name.

Ron Shackelford, CPA  
Chief, Audit Office

October 2, 2009

**CLOVERDALE CITRUS FAIR ASSOCIATION  
CLOVERDALE CITRUS FAIR  
CLOVERDALE, CALIFORNIA**

**STATEMENTS OF FINANCIAL CONDITION  
December 31, 2008 and 2007**

	<u>Account Number</u>	<u>2008</u>	<u>2007</u>
<b>ASSETS</b>			
Cash & Cash Equivalents	111-117	\$ 1,381,082	\$ 1,186,590
Accounts Receivable, Net	131	10,014	15,757
Deferred Charges	143	103,377	73,730
Land	191	27,233	27,233
Buildings and Improvements, Net	192	348,743	351,592
Equipment, Net	193	11,545	19,852
<b>TOTAL ASSETS</b>		<b><u>1,881,994</u></b>	<b><u>1,674,753</u></b>
<b>LIABILITIES AND NET RESOURCES</b>			
<b>Liabilities</b>			
Accounts Payable & Other Liabilities	211-212	16,950	7,876
Payroll Liabilities	221 - 226	(1,105)	849
Deferred Income	228	333,174	278,419
Guaranteed Deposits	241	7,740	8,150
Compensated Absences Liability	245	3,533	5,667
<b>Total Liabilities</b>		<b><u>360,292</u></b>	<b><u>300,961</u></b>
<b>Net Resources</b>			
Net Resources - Operations	291	1,134,182	975,115
Net Resources - Capital Assets	291.1	387,520	398,677
<b>Total Net Resources Available</b>		<b><u>1,521,702</u></b>	<b><u>1,373,793</u></b>
<b>TOTAL LIABILITIES AND NET RESOURCES</b>		<b><u>\$ 1,881,994</u></b>	<b><u>\$ 1,674,753</u></b>

**CLOVERDALE CITRUS FAIR ASSOCIATION  
CLOVERDALE CITRUS FAIR  
CLOVERDALE, CALIFORNIA**

**STATEMENTS OF OPERATIONS/CHANGES IN ACCOUNTABILITY  
December 31, 2008 and 2007**

	<u>Account Number</u>	<u>2008</u>	<u>2007</u>
<b>REVENUE</b>			
State Apportionments	312	\$ 180,000	\$ 180,000
Other Resources Acquired	340	94,042	40,000
Admissions	410	60,047	56,165
Commercial Space	415	8,875	8,625
Concessions	420	40,578	37,135
Exhibits	430	6,256	6,593
Attractions - Fairtime	460	440,444	439,623
Miscellaneous Fair	470	49,030	49,484
Non-Fair Revenue	480	104,847	110,207
Prior Year Adjustment	490	772	(256)
Other Revenue	495	41,157	55,865
<b>Total Revenue</b>		<b><u>1,026,048</u></b>	<b><u>983,442</u></b>
<b>EXPENSES</b>			
Administration	500	181,056	164,221
Maintenance and Operations	520	126,345	115,384
Publicity	540	29,144	23,830
Attendance	560	10,213	10,037
Miscellaneous Fair	570	22,516	15,817
Premiums	580	21,535	19,981
Exhibits	630	14,470	9,761
Attractions - Fairtime	660	401,297	352,882
Equipment	723	1,611	12,707
Prior Year Adjustments	800	(1,875)	3,651
Cash Over/Short from Ticket Sales	850	104	(13)
Depreciation Expense	900	29,157	35,823
Other Operating Expense	945	42,566	19,043
<b>Total Expenses</b>		<b><u>878,139</u></b>	<b><u>783,124</u></b>
<b>RESOURCES</b>			
Net Change - Income / (Loss)		147,909	200,318
Resources Available, January 1		1,373,793	1,173,475
<b>Resources Available, December 31</b>		<b><u>\$ 1,521,702</u></b>	<b><u>\$ 1,373,793</u></b>

**CLOVERDALE CITRUS FAIR ASSOCIATION  
CLOVERDALE CITRUS FAIR  
CLOVERDALE, CALIFORNIA**

**STATEMENTS OF CASH FLOWS - REGULATORY BASIS  
December 31, 2008 and 2007**

	<u><b>2008</b></u>	<u><b>2007</b></u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Excess of Revenue Over Expenses (Expenses Over Revenue)	147,909	200,318
Adjustment to Reconcile Excess of Revenue Over Expenses to Net Cash Provided by Operating Activities:		
(Increase) Decrease in Accounts Receivable	6,288	(2,431)
(Increase) Decrease in Deferred Charges	(29,647)	(4,078)
Increase (Decrease) in Deferred Income	54,755	35,869
Increase (Decrease) in Accounts Payable	9,075	2,700
Increase (Decrease) in Payroll Taxes	(1,954)	(50)
Increase (Decrease) in Compensated Absence Liability	(2,134)	(1,811)
Increase (Decrease) in Guarantee Deposits	(410)	2,000
Total Adjustments	<u>35,973</u>	<u>32,199</u>
<b>Net Cash Provided (Used) by Operating Activities</b>	<u><b>183,882</b></u>	<u><b>232,516</b></u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
(Increase) Decrease in Buildings & Improvements	2,849	(44,288)
(Increase) Decrease in Equipment	8,307	10,872
<b>Net Cash Provided (Used) by Investing Activities</b>	<u><b>11,156</b></u>	<u><b>(33,415)</b></u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Increase (Decrease) in Long-Term Liability	<u>-</u>	<u>-</u>
<b>Net Cash Provided (Used) by Financing Activities</b>	<u><b>-</b></u>	<u><b>-</b></u>
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>195,038</b>	<b>199,101</b>
Cash at Beginning of Year	1,186,590	987,489
<b>CASH AT END OF YEAR</b>	<u><u><b>\$ 1,381,628</b></u></u>	<u><u><b>\$ 1,186,590</b></u></u>

**CLOVERDALE CITRUS FAIR ASSOCIATION  
CLOVER DALE CITRUS FAIR  
CLOVERDALE, CALIFORNIA**

**NOTES TO THE FINANCIAL STATEMENTS**

December 31, 2008 and 2007

**NOTE 1      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Organization - The Cloverdale Citrus Fair Association was formed for the purpose of sponsoring, managing, and conducting the Cloverdale Citrus Fair each year in Cloverdale, California. The State of California, Department of Food and Agriculture, through the Division of Fairs and Expositions provides oversight responsibilities to Cloverdale Citrus Fair Association. The Cloverdale Citrus Fair Association is subject to the policies, procedures, and regulations set forth in the California Government Code, California Business and Professions Code, Public Contracts Code, Food and Agricultural Code, State Administrative Manual, and the Accounting Procedures Manual established by the Division of Fairs and Expositions.

The State of California allocates funds annually to the Cloverdale Citrus Fair Association to support operations and acquire fixed assets. However, the level of State funding varies from year to year based on budgetary constraints. The Division of Fairs and Expositions determines the amount of the allocations.

Basis of Accounting - The accounting policies applied to and procedures used by the Cloverdale Citrus Fair Association conform to accounting principles applicable to District Agricultural Associations as prescribed by the State Administrative Manual and the Accounting Procedures Manual. The Cloverdale Citrus Fair Association's activities are accounted for as an enterprise fund. The Governmental Accounting Standards Board (GASB) defines an enterprise fund as a fund related to an organization financed and operated in a manner similar to a private business enterprise where the intent is to recover the costs of providing goods or services to the general public primarily through user charges. Pursuant to GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Account, the Cloverdale Citrus Fair Association has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

The Cloverdale Citrus Fair Association's financial activities are accounted for using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP) as promulgated by

the Governmental Accounting Standards Board. Thus, revenues are reported in the year earned rather than collected, and expenses are reported in the year incurred rather than paid.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes – The Cloverdale Citrus Fair Association is a state agency and therefore, is exempt from paying taxes on its income.

Cash and Cash Equivalents - The Cloverdale Citrus Fair Association's cash and cash equivalents are separately held in various local banks. The Financial Accounting Standards Board defines cash equivalents as short-term, highly liquid investments that are both: (1) readily convertible to known amounts of cash; and (2) so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. The cost of all cash equivalents of the Cloverdale Citrus Fair Association approximates market value.

The California State Treasury makes available the Local Agency Investment Fund (LAIF) through which local governments may pool investments. Each governmental entity may invest up to \$40,000,000 in the fund. Investments in the LAIF are highly liquid, as deposits can be converted to cash within 24 hours without loss of interest.

In accordance with the Accounting Procedures Manual, the Cloverdale Citrus Fair Association is authorized to deposit funds in certificates of deposit and interest bearing accounts. However, Government Code Sections 16521 and 16611 require the bank or savings and loan association to deposit, with the State Treasurer, securities valued at 110 percent of the uninsured portion of the funds deposited with the financial institution. Government Code Sections 16520 and 16610 provide that security need not be required for that portion of any deposit insured under any law of the United States, such as FDIC and FSLIC.

Inventories – Inventories, if any, consists primarily of souvenir items sold during fair time, and is stated at cost.

Property and Equipment - Construction-in-progress, land, buildings and improvements, and equipment are acquired with operating funds and funds allocated by the State. Any acquired assets, if greater than \$5,000 and a useful life of one or more years, are recorded at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the asset. Buildings and improvements are depreciated over 30 years, and purchases of equipment are depreciated over five years. Costs of

repair and maintenance are expensed as incurred by the Cloverdale Citrus Fair Association. Furthermore, donated building improvements, and equipment are recorded at their fair market value at the date of the gift. This recorded basis is depreciated over the useful lives identified above. The costs of projects that have not been placed in service are recorded in Account #190, Construction-in-Progress, and no depreciation is recorded on Construction-in-Progress until the project is completed and the asset is placed in service.

Compensated Absences - Pursuant to Statement No. 16 of the Governmental Accounting Standards Board, State and local governmental entities are required to report the liability for compensated absences. Compensated absences are absences for which permanent employees will be paid, such as vacation, personal leave, and compensatory time off. The compensated absences liability is calculated based on the pay rates in effect at the balance sheet date.

## NOTE 2

### **NEW ACCOUNTING STANDARDS**

In July 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, ("GASB Statement No. 45"). This statement establishes standards for the measurement, recognition, and display of postretirement benefits other than pensions expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. The statement becomes effective for the District for periods beginning after December 15, 2007. Management has not determined the effect of GASB Statement No. 45 on the combined financial statements.

In September 2006, the GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Receivables and Future Revenues*, ("GASB Statement No. 48"). GASB Statement No. 48 establishes criteria that governments will use to ascertain whether the proceeds received should be reported as revenue or as a liability. The criteria should be used to determine the extent to which a transferor government either retains or relinquishes control over the receivables or future revenues through its continuing involvement with those receivables or future revenues. This Statement establishes that a transaction will be reported as a collateralized borrowing unless the criteria indicating that a sale has taken place are met. If it is determined that a transaction involving receivables should be reported as a sale, the difference between the carrying value of the receivables and the proceeds should be recognized in the period of the sale in the change statements. If it is determined that a transaction involving future revenues should not be reported as a sale, the revenue should be deferred and amortized, except when specific criteria are met. This Statement also provides additional guidance for sales of receivables and future revenues within the same financial reporting entity. This statement is effective for periods beginning after

December 15, 2006. Adoption of this statement did not have a material impact on the combined financial statements.

In November 2006, the GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, (“GASB Statement No. 49”). GASB Statement No. 49 requires governmental entities to report pollution remediation costs in their financial statements. It identifies five obligating events under which the government should estimate the expected obligations for pollution remediation. Under the standard, liabilities and expenses will be estimated using an “expected cash flows” measurement technique, which will be employed for the first time by governments. Further, the standard requires that governments disclose information about their pollution remediation obligations associated with clean-up efforts in the notes to the financial statements. GASB Statement No. 49 will be effective for financial statements with periods beginning December 15, 2007, but liabilities should be measured at the beginning of that period so that beginning net assets can be restated. Management has not determined the effect of GASB Statement No. 49 on the combined financial statements.

In May 2007, the GASB issued Statement No. 50, *Pension Disclosures*, (GASB Statement No. 50”). GASB Statement No. 50 more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits (“OPEB”) and, in doing so, enhances information disclosed in notes to financial statements or presented as required supplementary information (“RSI”) by pension plans and by employers that provide pension benefits. The reporting changes required by this Statement amend applicable note disclosure and RSI requirements of GASB Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, (“GASB Statement No. 25”), and No. 27, *Accounting for Pensions by State and Local Governmental Employers*, (“GASB Statement No. 27”) to conform with requirements of Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, (“GASB Statement No. 43”) and No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, (“GASB Statement No. 45”). GASB Statement No. 50 will be effective for financial statements with periods beginning after June 15, 2007. Management has not determined the effect of GASB Statement No. 50 on the combined financial statements.

In July 2007, the GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, (“GASB Statement No. 51”). GASB Statement No. 51 requires that intangible assets be classified as capital assets (except for those explicitly excluded from the scope of the new standard, such as capital leases). GASB Statement No. 51 will be effective for financial statements with periods beginning after June 15, 2009. Management has not determined the effect of GASB Statement No. 51 on the combined financial statements.

**NOTE 3      CASH AND CASH EQUIVALENTS**

The following list of cash and cash equivalents were held by the Cloverdale Citrus Fair Association as of December 31:

	<u>2008</u>	<u>2007</u>
Petty Cash	\$ 50	\$ 50
Cash in Bank - Operating	143,959	63,852
Cash in Bank – Time Deposits	<u>1,237,074</u>	<u>1,122,688</u>
Total Cash and Cash Equivalents	<u>\$ 1,381,082</u>	<u>\$ 1,186,590</u>

**NOTE 4      ACCOUNTS RECEIVABLE**

The Cloverdale Citrus Fair Association is required to record an allowance for doubtful accounts based on estimates of collectability.

	<u>2008</u>	<u>2007</u>
Accounts Receivable	\$ 10,288	\$ 15,757
Allowance for Doubtful Accounts	<u>(274)</u>	<u>-</u>
Accounts Receivable - Net	<u>\$ 10,014</u>	<u>\$ 15,757</u>

**NOTE 5      PROPERTY AND EQUIPMENT**

Buildings and improvements, and equipment at December 31, 2008 and 2007 consist of the following:

	<u>2008</u>	<u>2007</u>
Building & Improvements	\$ 1,024,669	\$ 1,006,669
Less: Accumulated Depreciation	<u>(675,925)</u>	<u>(655,077)</u>
Building & Improvements - Net	<u>\$ 348,743</u>	<u>\$ 351,592</u>
Equipment	\$ 145,919	\$ 145,918
Less: Accumulated Depreciation	<u>(134,375)</u>	<u>(126,066)</u>
Equipment - Net	<u>\$ 11,544</u>	<u>\$ 19,852</u>

**NOTE 6      RETIREMENT PLAN**

Permanent employees of the Cloverdale Citrus Fair Association are members of the Public Employees' Retirement System (PERS), which is a defined benefit contributory retirement plan. The retirement contributions made by the Cloverdale Citrus Fair Association and its employees are actuarially determined. Contributions plus earnings of the Retirement System will provide the necessary funds to pay retirement costs when accrued. The

Cloverdale Citrus Fair Association's share of retirement contributions is included in the cost of administration. For further information, please refer to the annual single audit of the State of California.

Retirement benefits fully vest after five years of credited service for Tier I employees. Retirement benefits fully vest after ten years of credited service for Tier II employees. Upon separation from State employment, members' accumulated contributions are refundable with interest credited through the date of separation. The Cloverdale Citrus Fair Association, however, does not accrue the liability associated with vested benefits.

The Alternate Retirement Program (ARP) is a retirement savings program that certain employees hired on or after August 11, 2004 are automatically enrolled in for their first two years of employment with the State of California. ARP is administered by the Savings Plus Program with the Department of Personnel Administration and invests funds in a fixed-income fund. ARP provides two years of retirement savings (five percent of paycheck amount each month) in lieu of two years of service credit. At the end of the two-year period, the deductions are placed in CalPERS and the retirement service credit begins.

Temporary, 119-day, employees of the Cloverdale Citrus Fair Association participate in the Part-Time, Seasonal, Temporary (PST) Retirement Plan. The PST Retirement Plan is a mandatory deferred compensation plan under which 7.5% of the employee's gross salary is deducted before taxes are calculated. These pre-tax dollars are placed in a guaranteed savings program. The employee has the option of leaving these funds on deposit upon separation, or requesting a refund.

NOTE 7

**RECLASSIFICATION**

Certain prior-year balances have been reclassified to conform to current year presentation. This reclassification did not have an effect on net income.

**CLOVERDALE CITRUS FAIR ASSOCIATION  
CLOVER DALE CITRUS FAIR  
CLOVERDALE, CALIFORNIA**

**REPORT DISTRIBUTION**

<u>Number</u>	<u>Recipient</u>
1	President, Cloverdale Citrus Fair Board of Directors
1	Chief Executive Officer, Cloverdale Citrus Fair
1	Director, Division of Fairs and Expositions
1	Chief Counsel, CDFA Legal Office
1	Chief, CDFA Audit Office

CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE

AUDIT OFFICE



CLOVERDALE CITRUS FAIR ASSOCIATION  
CLOVERDALE CITRUS FAIR  
CLOVERDALE, CALIFORNIA

MANAGEMENT REPORT #09-055

YEAR ENDED DECEMBER 31, 2008

CLOVERDALE CITRUS FAIR ASSOCIATION  
CLOVERDALE CITRUS FAIR  
CLOVERDALE, CALIFORNIA

MANAGEMENT REPORT  
YEAR ENDED DECEMBER 31, 2008

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AUDIT STAFF

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Ron Shackelford, CPA  
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Michelle Chan

Audit Chief  
Assistant Audit Chief  
Auditor

MANAGEMENT REPORT NUMBER  
#09-055

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CALIFORNIA DEPARTMENT OF  
FOOD & AGRICULTURE

A. G. Kawamura, Secretary

Betty Kunakov, President  
Board of Directors  
Cloverdale Citrus Fair  
1 Citrus Fair Drive  
Cloverdale, California 95425

In planning and performing our audit of the financial statements of the Cloverdale Citrus Fair Association, Cloverdale Citrus Fair, Cloverdale, California, for the year ended December 31, 2008, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure. However, we noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

In addition, this Management Report includes: (1) matters other than those related to the internal control structure which came to our attention that could, in our judgment, either individually or in the aggregate, have a significant effect on the entity's financial reporting process (e.g., accounting errors, significant audit adjustments, etc.), and (2) areas of non-compliance by the Cloverdale Citrus Fair with respect to State laws and regulations, with the Accounting Procedures Manual, and with established policies and procedures.

In accordance with Government Code Section 13402, Fair managers and Board of Directors are responsible for the establishment and maintenance of a system or systems of internal accounting and administrative control within their agencies. This responsibility includes documenting the system, communicating system requirements to employees, and assuring that the system is functioning as prescribed and is modified, as appropriate, for changes in conditions.

Due to the small size of the Cloverdale Citrus Fair Association's office staff, it is not practical to have the degree of segregation of duties possible in a larger organization. Therefore, the Board of Directors must consider this when determining the extent that the Board becomes involved in operations to adequately safeguard the Cloverdale Citrus Fair Association's assets. The system of internal control should provide the Board of Directors



and management reasonable, but not absolute, assurance that: (1) only authorized transactions are executed; (2) transactions are properly recorded in the accounting records; and (3) material errors and irregularities that may occur, will be detected by the Cloverdale Citrus Fair Association in a timely manner during the normal course of operations. In this regard, it is particularly important that the Board review and approve significant transactions and critically review monthly financial information. The Cloverdale Citrus Fair Association's minimum staffing was one factor considered in determining the nature, timing, and extent of the tests to be performed on the Cloverdale Citrus Fair Association's accounting procedures, records, and substantiating documents.

During our audit of the internal control structure of the Cloverdale Citrus Fair Association and compliance with state laws and regulations, we identified two areas with reportable conditions that are considered weaknesses in the Fair's operations: Accounting for payroll liabilities, and payroll and personnel records. We have provided five recommendations to improve the operations of the Fair. The Fair must respond in writing on how these recommendations will be implemented.

We also identified additional areas containing non-reportable conditions. These conditions and accompanying recommendations are not considered significant weaknesses. We have included these items solely for the benefit of the Cloverdale Citrus Fair Association's management. We suggest the Fair implement the recommendations as soon as practicable. The Fair, however, is not required to provide written responses to the recommendations for non-reportable conditions.

## REPORTABLE CONDITIONS

### ACCOUNTING FOR PAYROLL LIABILITIES

An examination of the Fair's payroll records revealed the following:

- a. The Fair's accounting for payroll liabilities within its accounting records may contain errors. Within its general ledger, payroll liabilities accounts contained outstanding credit balances of \$2,777 and debit balances of \$1,105. Normally, payroll liabilities are zeroed out after the amounts withheld are forwarded to the related agencies. An ongoing balance represents a posting error or indicates an amount was over-withheld from an employee.
- b. The Fair's Internal Revenue Service (IRS) tax forms, quarterly 941s and the W-3 for the total wages do not reconcile for the 2008 calendar year. The total for the 941s reflect a higher wage total and a higher Medicare wage total as compared to the W-3.

#### *Recommendations*

1. *The Fair should research the composition of the payroll liabilities for appropriateness and take the necessary correcting actions or make the necessary correcting journal entries. In the future, the Fair should review payroll liabilities for appropriateness prior to closing its accounting period at year-end.*
2. *The Fair should reconcile the quarterly 941s to the W-3 to ensure total wage and Medicare wages agree. Failure to do so may result in the IRS assessing penalties and interest based on incorrect information being submitted on these forms.*

### PAYROLL AND PERSONNEL RECORDS

An examination of the Fair's payroll and personnel records revealed the following:

- a. The employees' timesheets and leave balance records had numerous mathematical errors. In most instances, total time off or time worked were not calculated correctly on the employees' timesheets. As a result, time off taken according to the employees' timesheets did not always reconcile to the time off recorded on their leave balances.
- b. A manager of the Fair did not maintain timesheets for the year 2008. When copies of the manager's 2008 timesheets were requested, our office was informed that the manager documents their time off by adjusting their employee leave balance. According to the Accounting Procedures Manual (APM) Section 3, Chapter 4.1, the Fair should maintain timesheets for all employees to ensure compliance with labor laws related to overtime and paid leaves. The timesheets must be reviewed and signed by a supervisor or board member, and timesheets should show hours worked and leave taken.
- c. The Fair did not complete the required Employment Development Department (EDD) Form DE 34 form for newly hired employees. The Fair is required to report to EDD

within 20 calendar days of the employee's start-of-work date by submitting Form DE 34. According to EDD, every newly hired or rehired employee must be reported to the California New Employee Registry. This includes employees of all ages, those who work less than a full day, part-time and seasonal employees, and those who discontinue their employment prior to the 20th day of work.

#### *Recommendations*

3. *The Fair should review their employees' timesheets to verify the number of hours worked and taken off. Furthermore, the Fair should update the leave balance records to reflect the correct amount of leave time earned and used by employees.*
4. *The Fair should comply with the APM and require all permanent employees to maintain timesheets that show vacation and paid leave taken with the appropriate level of approval.*
5. *The Fair should comply with EDD requirements by reporting to the EDD newly hired employees within 20 calendar days of the employee's first day of work.*

## NON-REPORTABLE CONDITIONS

### COMPENSATED ABSENCES LIABILITY

The Fair did not adjust Account #245, Compensated Leave Liability, to reflect the appropriate amount as compared to the employee leave balances at year-end. Instead, the Fair estimated the amount of leave hours used for the year to adjust the account at year-end. As a result, Account #245 was understated by \$1,579.

#### *Recommendation*

*The Fair should review employee leave balances at year-end to ensure that Account #245, Compensated Leave Liability, reflects the appropriate amount. This account should be adjusted annually.*

### SPONSORSHIP AGREEMENTS

It was noted in several instances that the Fair exposed itself to loss by not having both a representative of the Fair and a representative of the sponsor sign the sponsorship agreement. These signatures help ensure that the sponsorship agreement has been reviewed and approved by both parties prior to any final monetary settlement. A signed agreement also helps alleviate any uncertainty as to the amount owed and to whom it is owed.

#### *Recommendation*

*The Fair should ensure that sponsorship agreements have been reviewed and signed by both parties to alleviate any discrepancies that may later arise.*

### NEPOTISM

The Fair allowed a supervisor to directly manage a family member during the year. The Accounting Procedures Manual and CDFA Procedural Circular II-20 prohibit direct supervision of any employee - permanent, temporary, or seasonal - with whom a supervisor has a personal relationship. Although it may be appropriate for individuals who have a personal relationship to work in the same location, it is important that these arrangements do not violate the requirements of separation of duties.

#### *Recommendation*

*The Fair should prohibit employees from having direct supervision of any individuals with whom a personal relationship exists. At a minimum, the employees should report to someone other than a family member.*

**CLOVERDALE CITRUS FAIR ASSOCIATION'S RESPONSE**

(707) 894-3992  
FAX (707) 894-9553  
1 Citrus Fair Drive  
Cloverdale, CA 95425

*ANNUALLY SINCE 1892*



Member  
Western Fairs Ass'n

*A NON-PROFIT ORGANIZATION*

November 13, 2009

State of California  
Department of Food & Agriculture  
1220 N Street, Room 344  
Sacramento, CA 95814

RE: 2008 Audit; Reportable Condition Response

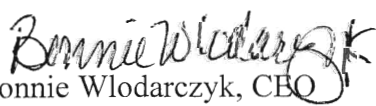
**Accounting for Payroll Liabilities**

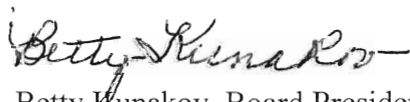
- a. The Citrus Fair hired Janice Jonson (who used to work for the Division of Fairs and Expositions in the budget department) to work with the Business Assistant. As of today they have gone back through 2004 and detected and corrected all payroll liability accounting errors.
- b. All payroll will now be handled by the Business Assistant as it was the CEO who made the errors in the past. The Business Assistant will have a minor in accounting from San Diego University.

**Payroll and Personnel Records**

- a. Both the Business Assistant and CEO will double check all employee timesheets for mathematical errors.
- b. The Manager will start keeping a time sheet.
- c. The Fair will complete the EDD Form DE34 for all new hires.

Sincerely,

  
Bonnie Wlodarczyk, CEO  
Cloverdale Citrus Fair

  
Betty Kunakov, Board President  
Cloverdale Citrus Fair



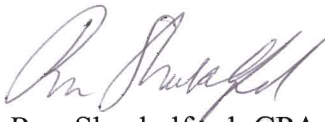
### **C DFA EVALUATION OF RESPONSE**

A draft copy of this report was forwarded to the management of the Cloverdale Citrus Fair, for its review and response. We have reviewed the response and it addresses the findings contained in this report.

### DISPOSITION OF AUDIT RESULTS

The findings in this management report are based on fieldwork that my staff performed between September 21, 2009 and October 2, 2009. My staff met with management on October 5, 2009 to discuss the findings and recommendations, as well as other issues.

This report is intended for the information of the Board of Directors, management, and the Division of Fairs and Expositions. However, this report is a matter of public record and its distribution is not limited.



Ron Shackelford, CPA  
Chief, Audit Office

October 5, 2009

**REPORT DISTRIBUTION**

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1	President, Cloverdale Citrus Fair Board of Directors
1	Chief Executive Officer, Cloverdale Citrus Fair
1	Director, Division of Fairs and Expositions
1	Chief Counsel, CDFA Legal Office
1	Chief, CDFA Audit Office